

Message Text

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41

ACTION NEA-10

INFO OCT-01 ISO-00 EB-07 L-03 SP-02 CIAE-00 INR-07 NSAE-00

STR-04 TRSE-00 /034 W

----- 112585

R 151239Z OCT 75

FM AMEMBASSY MANAMA BAHRAIN

TO SECSTATE WASHINGTON DC 2504

INFO AMEMBASSY ABU DHABI UAE

AMCONSUL DHAHRAN SAUDI ARABIAN

AMEMBASSY DOHA QATAR

AMEMBASSY JIDDA SAUDI ARABIA

AMEMBASSY KUWAIT KUWAIT

AMEMBASSY MUSCAT OMAN

AMEMBASSY TEHRAN IRAN

USDOC WASHINGTON DC

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E.O. 11652: N/A

TAGS :

SUBJECT : BAHRAIN'S NON-HILTON HOTEL

1. BAHRAIN'S NEW SHOWPIECE HOTEL, LONG AND LATE IN BUILDING, STANDS NOW ESSENTIALLY READY FOR OCCUPANCY. IN VIEW OF THE INTENSE HOTEL SHORTAGE IN BAHRAIN, IT IS DESPERATELY NEEDED BUT ITS OPENING DATE IS, AT THIS STAGE, MOST UNCERTAIN. SLOWLY AND REGRETFULLY THE COMMUNITY IS LEARNING TO CEASE REFERRING TO THIS IMPRESSIVE EDIFICE AS "THE HILTON".

2. UNDER A FORMAL AGREEMENT REACHED IN THE EARLY 1970'S THE HOTEL OWNERS, INTERNATIONAL TRADING ESTABLISHMENT, (PRINCIPAL PARTNERS ARE BROTHERS IBRAHIM AND ABDULLATIF ISHAQ AND SHAIKH KHALIFA, THE PRIME MINISTER OF BAHRAIN) HAD UNDERTAKEN FOR HILTON INTERNATIONAL TO MANAGE THE HOTEL ONCE IT WAS COMPLETED FOR A FEE BASED PARTLY ON GROSS RECEIPTS. AS BAHRAIN BOOMED AND CONSTRUCTION LAGGED, IT BECAME APPARENT THAT THE OWNERS WERE GOING TO SPEND MUCH MORE THAN THEY HAD PLANNED TO BUILD

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THE HOTEL AND THAT THE GROSS REVENUES (AND HENCE HILTON'S FEE)

WERE LIKELY TO BE LARGER THAN THE OWNERS HAD ORIGINALLY ANTICIPATED. MOREOVER, BECAUSE OF THE INTENSE HOTEL SHORTAGE IN BAHRAIN OVER THE LAST TWO OR THREE YEARS, THE OWNERS BECAME CONVINCED THAT THEY REALLY DID NOT NEED HILTON'S HELP TO KEEP THEIR HOTEL PROFITABLY FULL.

3. AS RESULT OF THESE DEVELOPMENTS, OVER MANY MONTHS THE OWNERS AND HILTON HAVE BEEN SOMETIMES BICKERING AND SOMETIMES ALMOST NEGOTIATING IN THE HOPE OF WORKING OUT MUTUALLY SATISFACTORY REVISION TO THE MANAGEMENT CONTRACT. THESE EFFORTS HAVE FAILED TO DATE AND IT NOW APPEARS HILTON WILL PROCEED TO SEEK INTERNATIONAL ARBITRATION IN ACCORDANCE WITH THE TERMS OF THE AGREEMENT. IN THE MEANTIME, THE OWNERS HAVE APPARENTLY SOUGHT TO INTEREST OTHER INTERNATIONAL HOTEL CHAINS, INCLUDING SEVERAL AMERICANS, IN REPLACING HILTON. TO OUR CURRENT KNOWLEDGE, NO AMERICAN COMPANY AT LEAST HAS BEEN WILLING TO TAKE UP THIS OFFER.

4. THROUGHOUT THESE DIFFICULTIES, HILTON HAS KEPT THE EMBASSY CLOSELY INFORMED OF DEVELOPMENTS. OVER THE LAST SEVERAL MONTHS THE AMBASSADOR HAS DISCUSSED THE PROBLEM NOT ONLY WITH GOVERNMENT OFFICIALS SUCH AS THE FOREIGN MINISTER AND DEVELOPMENT MINISTER, BUT ALSO WITH THE PRIME MINISTER AND HS PARTNER, IBRAHIM ISHAQ. THE POSITION WE HAVE TAKEN WITH THE BAHRAINIS IS THAT REACHING AN AMICABLE SETTLEMENT (WHETHER OR NOT HILTON WINDS UP RUNNING THE HOTEL) COULD BE OF SIGNIFICANT FUTURE IMPORTANCE TO THE COMMERICAL REPUTATION AND ECONOMIC INTERESTS OF BAHRAIN. TO DATE, HOWEVER, THE PRIME MINISTER SEEMS DETERMINED TO APPROACH THIS PROBLEM MORE AS A PRIVATE LANDLORD THAN AS A PUBLIC OFFICIAL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: HOTELS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANAMA01160
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750357-0680
From: MANAMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751052/aaaabtuy.tel
Line Count: 92
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 01 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 AUG 2003 by CunninFX>; APPROVED <24 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: : BAHRAIN'S NON-HILTON HOTEL
TAGS: EGEN, BA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006